

Estimates  
for the  
Financial Year 2018



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**STATEMENT OF COMPREHENSIVE INCOME**  
for the years ending 31 December 2016, 2017 and 2018

	Notes	2016 Actual €	Approved Estimate €	2017 Revised Estimate €	Savings/ (Excess) €	2018 Proposed Estimate €
<b>CONTINUING OPERATIONS</b>						
Government subvention	4	3,000,000	3,150,000	3,150,000	-	3,400,000
Other income		3,420	3,200	4,000	800	3,400
<b>Total operating revenue</b>		<b>3,003,420</b>	<b>3,153,200</b>	<b>3,154,000</b>	<b>800</b>	<b>3,403,400</b>
Salaries and personnel expenses	5	2,329,165	2,404,000	2,471,000	(67,000)	2,591,000
Sub-contracted audit fees of local councils	5	254,458	260,400	260,400	-	260,400
Administrative and other expenses	5	274,916	292,208	313,508	(21,300)	349,908
Depreciation		56,421	68,100	72,637	(4,537)	86,191
<b>Total operating expenses</b>	5	<b>2,914,960</b>	<b>3,024,708</b>	<b>3,117,545</b>	<b>(92,837)</b>	<b>3,287,499</b>
<b>Results from operating activities</b>		<b>88,460</b>	<b>128,492</b>	<b>36,455</b>	<b>(92,037)</b>	<b>115,901</b>
Provision for service pensions and gratuities	7	(81,882)	(67,404)	(73,464)	(6,060)	(67,395)
Bank interest receivable		88	300	100	(200)	100
<b>Surplus/(Deficit) for the year</b>		<b>6,666</b>	<b>61,388</b>	<b>(36,909)</b>	<b>(98,297)</b>	<b>48,606</b>

## SUPPLEMENTARY STATEMENT

for the years ending 31 December 2016, 2017 and 2018

	2016		2017		2018
	Actual	Approved	Revised	Savings/ Excess	Proposed
	€	Estimate	Estimate	€	Estimate
		€	€		€
<b>SALARIES AND PERSONNEL EXPENSES</b>					
Salaries	1,575,591	1,648,000	1,628,000	20,000	1,710,000
Bonuses	30,684	31,000	31,000	-	31,000
Social security contributions	128,641	135,000	133,000	2,000	140,000
Allowances	567,871	575,000	661,000	(86,000)	690,000
Overtime	26,378	15,000	18,000	(3,000)	20,000
	<b>2,329,165</b>	<b>2,404,000</b>	<b>2,471,000</b>	<b>(67,000)</b>	<b>2,591,000</b>
<i>Average Number of Employees</i>	65	68	64	4	65
<b>ADMINISTRATIVE AND OTHER EXPENSES</b>					
Utilities	25,937	26,000	26,000	-	26,000
Materials and supplies	3,388	3,500	4,000	(500)	4,000
Repairs and upkeep	22,404	20,000	20,000	-	20,000
Rent	13,308	13,308	13,308	-	13,308
International memberships	910	1,000	1,000	-	1,000
Office services	31,951	35,000	35,000	-	35,000
Transport	25,338	27,000	27,000	-	27,000
Travel	35,843	30,000	30,000	-	30,000
Information services	3,421	4,000	4,000	-	4,000
Contractual services	41,134	36,600	60,200	(23,600)	69,100
Professional fees	54,240	53,000	53,000	-	80,000
Training	11,322	24,000	29,500	(5,500)	30,000
Hospitality	4,860	6,300	5,000	1,300	5,000
Hosting of Events	-	12,000	5,000	7,000	5,000
Incidental expenses	406	500	500	-	500
Loss on disposal of assets	454	-	-	-	-
	<b>274,916</b>	<b>292,208</b>	<b>313,508</b>	<b>(21,300)</b>	<b>349,908</b>

**STATEMENT OF FINANCIAL POSITION**  
as at 31 December 2016, 2017 and 2018

	Notes	Actual 2016 €	Revised Estimate 2017 €	Proposed Estimate 2018 €
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property and equipment	6	<b>275,727</b>	<b>303,090</b>	<b>316,899</b>
<b>Current Assets</b>				
Prepayments		7,023	7,000	7,000
Cash and cash equivalents		11,964	9,358	29,855
		<b>18,987</b>	<b>16,358</b>	<b>36,855</b>
<b>Total Assets</b>		<b>294,714</b>	<b>319,448</b>	<b>353,754</b>
<b>LIABILITIES</b>				
<b>Non-current liabilities</b>				
Provision for service pensions and gratuities	7	486,741	495,704	501,273
<b>Current Liabilities</b>				
Payables	8	330,578	424,000	404,000
Provision for service pensions and gratuities	7	101,968	61,226	61,357
		<b>432,546</b>	<b>485,226</b>	<b>465,357</b>
<b>Total Liabilities</b>		<b>919,287</b>	<b>980,930</b>	<b>966,630</b>
<b>Net Liabilities</b>		<b>(624,573)</b>	<b>(661,482)</b>	<b>(612,876)</b>
Represented by:				
Accumulated deficits		<b>(624,573)</b>	<b>(661,482)</b>	<b>(612,876)</b>

**STATEMENT OF CHANGES IN NET LIABILITIES**  
**for the years ending 31 December 2016, 2017 and 2018**

	Accumulated deficit €
Balance at 1 January 2016	(631,239)
Surplus for the year	6,666
<b>Balance at 31 December 2016</b>	<b><u>(624,573)</u></b>
Balance at 1 January 2017	(624,573)
Estimated deficit for the year	(36,909)
<b>Balance at 31 December 2017</b>	<b><u>(661,482)</u></b>
Balance at 1 January 2018	(661,482)
Estimated surplus for the year	48,606
<b>Balance at 31 December 2018</b>	<b><u>(612,876)</u></b>



## STATEMENT OF CASH FLOWS

for the years ending 31 December 2016, 2017 and 2018

	Actual 2016	Revised Estimate 2017	Proposed Estimate 2018
	€	€	€
<b>Cash flows from operating activities</b>			
Surplus/(Deficit) for the year	6,666	(36,909)	48,606
Non-cash Adjustments to reconcile surplus/(deficit) to net cash flows:			
Depreciation	56,421	72,637	86,191
Loss on disposal of fixed assets	454	-	-
Bank interest receivable	(88)	(100)	(100)
Provision for service pensions and gratuities	81,882	73,464	67,395
	145,335	109,092	202,092
Movement in prepayments	13,756	23	-
Movement in payables	(5,557)	93,422	(20,000)
Movement in provision for service pensions and gratuities	(52,033)	(105,243)	(61,695)
Cash generated from operating activities	101,501	97,294	120,397
Bank interest received	88	100	100
<b>Net cash from operating activities</b>	<b>101,589</b>	<b>97,394</b>	<b>120,497</b>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment	(116,933)	(100,000)	(100,000)
<b>Cash used in investing activities</b>	<b>(116,933)</b>	<b>(100,000)</b>	<b>(100,000)</b>
<b>Net (decrease/increase) in cash and cash equivalents</b>	<b>(15,344)</b>	<b>(2,606)</b>	<b>20,497</b>
Cash and cash equivalents at 1 January	27,308	11,964	9,358
<b>Cash and cash equivalents at 31 December</b>	<b>11,964</b>	<b>9,358</b>	<b>29,855</b>

## Notes to the Estimates for the years ending 31 December 2016, 2017 and 2018

### 1. REPORTING ENTITY

The National Audit Office (the “Office”) has been set up to:

- give more prominence to the role of the State audit function in Malta;
- ensure accountability in the utilisation of public funds; and
- contribute towards the better management of public funds and resources.

### 2. BASIS OF PREPARATION

The Estimates have been prepared and presented in accordance with International Financial Reporting Standards as adopted by the EU. Assets and liabilities are measured at cost, except for the provision for service pensions and gratuities, which is measured according to accounting policy detailed in note 3.6.

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these estimates.

#### 3.1 Government of Malta subventions

Subventions received from Government which constitute the main source of revenue for the National Audit Office are taken directly to the statement of profit or loss and other comprehensive income upon approval of the allocated amount by the Ministry for Finance.

#### 3.2 Finance income

Finance income comprises interest receivable on bank balances and is recognised as it accrues.

#### 3.3 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash in hand and deposits at bank.

#### 3.4 Other payables

Liabilities for other accounts payable are carried at cost which is the fair value of the consideration to be paid in the future for goods and services rendered, whether or not billed to the office.

### 3.5 Property and equipment

#### *Recognition and measurement*

Items of property and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognised net within “other income” in profit or loss.

#### *Subsequent costs*

The cost of replacing part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the entity and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property and equipment are recognised in profit or loss.

#### *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

The estimated useful lives for the current and comparative years are as follows:

- |                                   |          |
|-----------------------------------|----------|
| • Building improvements           | 10 years |
| • Office equipment                | 5 years  |
| • Computer equipment and software | 3 years  |
| • Motor vehicles                  | 5 years  |
| • Fixtures and fittings           | 10 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

### 3.6 Provisions

A provision is recognised if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

The provision for service pensions and gratuities is calculated at the present value of the post-employment benefit obligations towards the present and retired employees of the Office. The present value is arrived at by using a risk free rate of the local Government bond which will mature on a date equivalent to the average number of years during which the Office is expected to affect pensions and gratuities payments.

## 4. GOVERNMENT SUBVENTION

### 4.1 Government Subvention for 2017

The National Audit Office Accounts Committee unanimously approved the 2017 Estimates of the National Audit Office on the 18th of July 2016. The Estimates which requested an amount of € 3,150,000 for 2016 were subsequently approved by all Members of Parliament present during parliamentary sitting number 420 held on the 19<sup>th</sup> of July 2016.

The amount requested has also been agreed upon with the Ministry for Finance as submitted in the Business and Financial Plan 2017-2019.

**Table 1: The Financial Picture**

Year	Amount authorized by Parliament	Amount allocated in budgetary estimates	Amount actually withdrawn	Surplus/ (Deficit) for the Year	Number of Reports Published	Average Staff Complement
	€	€	€	€	€	
2008	2,100,000	1,864,000	1,500,000	(113,298)	3	51
2009	2,100,000	1,864,000	1,864,000	(81,725)	11	57
2010	2,400,000	1,950,000	2,400,000	145,044	9	55
2011	2,400,000	2,200,000	2,200,000	(11,579)	11	56
2012	2,400,000	2,185,000	2,185,000	(143,140)	15	59
2013	2,500,000	2,250,000	2,265,000	(162,247)	13	57
2014	2,600,000	2,280,000	2,600,000	29,002	16	58
2015	2,800,000	2,700,000	2,700,000	(84,482)	15	62
2016	3,000,000	2,900,000	3,000,000	6,666	16	65
2017	3,150,000	3,150,000	3,150,000*	(36,909)*	16*	64*

\*Estimate

## NAO Publications in 2017

### Published during 1 January 2017 to 30 June 2017

1. Information Technology Audit: Cyber Security across Government Entities
2. Contribution of the Structural Funds to the Europe 2020 Strategy in the Areas of Employment and Education
3. Report on the Work and Activities of the National Audit Office
4. Market Surveillance by MCCA on Childcare Products and Pesticides
5. School Transport Procurement Follow Up
6. An Investigation of Property Transfers between 2006 and 2013: Disposal of Property at Spinola
7. An Investigation of Property Transfers between 2006 and 2013: Disposal of Property at Fekruna Bay

### *Further expected publications by year end*

8. Environmental Landscape Consortium
9. Gozo Road Repairs
10. Special Follow Up Audit Reports
11. MDH Outpatient Waiting Lists
12. Annual Report on the Financial Statements of local councils year ended 31 December 2016
13. Annual report on the Public Accounts of 2016
14. Evaluation of success of Energy Scheme
15. Marine Parks
16. IT tools in training and professional development

## 4.2 Proposed Government Subvention for 2017

The National Audit Office Estimates for 2017 provide for a financial resource requirement of €3,400,000 to maintain a planned staff complement of 65 persons and to cover the present and future operational and capital costs commitments.

The amount requested has also been submitted to the Ministry for Finance in the Business and Financial Plan 2018-2020.

## 5. Operating Costs

	2013	2014	2015	2016	2017	2018
	Actual	Actual	Actual	Actual	Estimate	Estimate
	€	€	€	€	€	€
Salaries	1,775,469	1,920,114	2,130,916	2,329,165	2,471,000	2,591,000
Local Council Audit	239,342	239,342	233,832	254,458	260,400	260,400
Administrative	294,623	315,257	299,403	274,916	313,508	349,908
Depreciation	46,423	38,858	48,619	56,421	72,637	86,191
<b>Total</b>	<b>2,355,857</b>	<b>2,513,571</b>	<b>2,712,770</b>	<b>2,914,960</b>	<b>3,117,545</b>	<b>3,287,449</b>

- The average staff complement for 2017 is expected to stabilize at sixty-four persons for 2017 – one employee less from last year’s average staff complement of sixty-five persons. The increases in salaries reflect the cost of increases, which are currently being negotiated with the Union in the Collective Agreement following the last agreement signed for 2013-2016. The estimated increase in salaries for 2017 is expected to amount to a one-off increase of €150,000. The salary increases for 2018 and beyond will be based on the percentage increases awarded in the equivalent grades of the Government Civil Service.
- The estimated salary costs for 2018 amounting to € 2,591,000 has been based on the expected staff complement of sixty one persons at end of year 2017 and the recruitment of an additional three persons based on the salaries as currently being negotiated with the Union
- The audit fee of local councils are governed by agreements signed separately with five external audit firm to conduct the audit of the financial statements of sixty eight local councils, five regional committees and the local council association for financial years ending 2014 to 2018. The contracts are subject to review and renewal on an annual basis.
- The administrative overheads of the NAO are mostly of a fixed nature and tend to level at €300,000 each financial year. A slight increase in administrative expenses can be noted in 2018 due to provision for increases in the demand for consultancy work and training.

## 6. PROPERTY AND EQUIPMENT

	Building Improvements	Equipment	Computer Equipment & Software	Motor Vehicles	Furniture and Fittings	Total
	€	€	€	€	€	€
<b>Cost or valuation</b>						
At 1 January 2016	386,604	108,873	148,621	94,160	154,696	892,954
Additions	101,886	5,181	5,707	-	4,159	116,933
Write-Offs		(504)	(4,452)		(2,647)	(7,603)
Disposals			(4,189)	(23,619)		(27,808)
At 31 December 2016 (actual)	488,490	113,550	145,687	70,541	156,208	974,476
Estimated Additions for 2017	38,000	7,000	34,000	17,000	4,000	100,000
At 31 December 2017 (Estimate)	526,490	120,550	179,687	87,541	160,208	1,074,476
Estimated Additions for 2018	32,000	8,000	20,000	35,000	5,000	100,000
<b>At 31 December 2018 (Estimate)</b>	<b>558,490</b>	<b>128,550</b>	<b>199,687</b>	<b>122,541</b>	<b>165,208</b>	<b>1,174,476</b>
<b>Depreciation and impairment</b>						
At 1 January 2016	211,734	96,088	137,276	94,160	138,027	677,285
Depreciation charge for 2016	37,982	6,414	8,354	-	3,671	56,421
Released upon write-off	-	(504)	(4,452)	-	(2,647)	(7,603)
			(3,735)	(23,619)	-	(27,354)
At 31 December 2016 (actual)	249,716	101,998	137,443	70,541	139,051	698,749
Estimated depreciaton charge for 2017	41,782	5,815	17,675	3,400	3,965	72,637
At 31 December 2017 (estimate)	291,498	107,813	155,118	73,941	143,016	771,386
Estimated depreciaton charge for 2018	44,982	6,698	19,902	10,400	4,209	86,191
<b>At 31 December 2018 (estimate)</b>	<b>336,480</b>	<b>114,511</b>	<b>175,020</b>	<b>84,341</b>	<b>147,225</b>	<b>857,577</b>
<b>Carrying amounts</b>						
At 31.12.2016 (Actual)	238,774	11,552	8,244	-	17,157	275,727
At 31.12.2017 (Estimate)	234,992	12,737	24,569	13,600	17,192	303,090
At 31.12.2018 (Estimate)	222,010	14,039	24,667	38,200	17,983	316,899

**7. PROVISION FOR SERVICE PENSIONS AND GRATUITIES**

The provision for service pension and gratuities is made up as follows:

	<b>2016</b> <b>(Actual)</b>	<b>2017</b> <b>(Estimate)</b>	<b>2018</b> <b>(Estimate)</b>
	€	€	€
Non-Current	486,741	495,704	501,273
Current	101,968	61,226	61,357
	<u>588,709</u>	<u>556,930</u>	<u>562,630</u>

The movement in this provision is as follows:

	<b>2016</b> <b>(Actual)</b>	<b>2017</b> <b>(Estimate)</b>	<b>2018</b> <b>(Estimate)</b>
	€	€	€
Pensions and gratuities as at 1 January	558,860	588,709	556,930
Provisions made during the year	81,882	73,464	67,395
Provisions used during the year	(52,033)	(105,243)	(61,695)
Pensions and gratuities as at 31 December	<u>588,709</u>	<u>556,930</u>	<u>562,630</u>

The Office provides for the obligation in terms of Article 8A of the Pensions Ordinance, Cap 93 of the Laws of Malta, whereby those ex-government employees who joined the Civil Service prior to 1979 and opted to become full-time employees of the Office when it was set up as an independent government entity, are entitled to receive the same pension and gratuity rights as provided for by the Ordinance.

There have been eleven persons who retired from the National Audit Office and were eligible for a Treasury gratuity and pension.

In accordance with the Pensions Ordinance, the contribution sharing of the pensions and gratuities with the Treasury Department is based on the difference between the pensions and gratuities as worked out on the employee's salary upon retirement from the Office and the pensions and gratuities as worked out on their salaries at the time they terminated government service to join the Office.



The post employment benefit obligations are computed after taking into consideration the following assumptions:

- The provision for service pensions and gratuities for 2016 is arrived at by discounting the post-employment benefit obligations of the Office using the year end maturity of 0.94 % on 7% 2025 I Government bonds. The average risk free rate of return of 10 year maturity government bonds used for calculating provisions of 2017 and 2018 were based on estimated rates of 0.7% and 0.55 % respectively.
- The provision for service pensions and gratuities for 2016 is based on average life expectancy of 80 years for males and 84 years for females as per published data of the National Statistics Office.

The average life expectancy was projected to increase as follows:

2017 – Male 81 years, Females 85 years

2018 – Male 82 years, Females 86 years

## 8. PAYABLES

	2016 (Actual)	2017 (Estimate)	2018 (Estimate)
	€	€	€
Operational and Capital Payables	23,959	16,000	16,000
Taxes and Social Security	47,283	48,000	48,000
Accruals	207,203	203,000	216,000
Amount due to Treasury	52,033	157,000	124,000
	330,578	424,000	404,000

## Annex 1 : Actual Statement of Comprehensive Income for the Period Ending 31 July 2017

## Reconciled to Revised Estimate for 2017

	Actual Jan - Jul (7 Month Period)	Monthly Average	Monthly Average extrapolated to 12 months for Jan - Dec 2017	Adjustments	Revised Estimate Jan - Dec 2017
	€	€	€	€	€
<b>CONTINUING OPERATIONS</b>					
Government subvention	1,837,500	262,500	3,150,000	-	3,150,000
Other income	2,088	298	4,000	-	4,000
<b>Total operating revenue</b>	<b>1,839,588</b>	<b>262,798</b>	<b>3,154,000</b>	<b>-</b>	<b>3,154,000</b>
Salaries and personnel expenses	(1,364,741)	(194,980)	(2,340,000)	(131,000)	(2,471,000)
Audit fees of local councils	(151,900)	(21,700)	(260,400)	-	(260,400)
Administrative and other expenses	(146,666)	(20,984)	(252,028)	(61,480)	(313,508)
Depreciation	(31,322)	(4,475)	(54,000)	(18,637)	(72,637)
<b>Total operating expenses</b>	<b>(1,694,629)</b>	<b>(242,139)</b>	<b>(2,906,428)</b>	<b>(211,117)</b>	<b>(3,117,545)</b>
<b>Results from operating activities</b>	<b>144,959</b>	<b>20,659</b>	<b>247,572</b>	<b>(211,117)</b>	<b>36,455</b>
Provision for service pensions and gratuities	(59,815)	(8,545)	(102,540)	29,076	(73,464)
Bank interest receivable	44	6	72	28	100
<b>Surplus/(Deficit) for the year</b>	<b>85,188</b>	<b>12,120</b>	<b>145,104</b>	<b>(182,013)</b>	<b>(36,909)</b>

## Annex 2: Actual Supplementary Statement for the Period Ending 31 July 2017

## Reconciled to Revised Estimate for Year Ending 2017

	Actual Jan - Jul (7 Month Period)	Monthly Average	Monthly Average extrapolated to 12 months for Jan - Dec 2017	Adjustments	Revised Estimate Jan - Dec 2017
	€	€	€	€	€
<b>SALARIES AND PERSONNEL EXPENSES</b>					
Salaries	908,225	129,750	1,557,000	71,000	1,628,000
Bonuses	17,772	2,540	30,500	500	31,000
Social security contributions	77,440	11,070	133,000	-	133,000
Allowances	350,951	50,140	601,700	59,300	661,000
Overtime	10,353	1,480	17,800	200	18,000
Total Salaries and Personnel Expenses	1,364,741	194,980	2,340,000	131,000	2,471,000
<b>ADMINISTRATIVE AND OTHER EXPENSES</b>					
Utilities	14,757	2,110	25,400	600	26,000
Materials and supplies	2,229	320	4,000	-	4,000
Repairs and upkeep	8,466	1,210	14,500	5,500	20,000
Rent	7,763	1,109	13,308	-	13,308
International memberships	927	133	1,000	-	1,000
Office services	16,007	2,290	27,500	7,500	35,000
Transport	11,601	1,660	20,000	7,000	27,000
Travel	21,130	3,020	36,000	(6,000)	30,000
Information services	2,163	309	4,000	-	4,000
Contractual services	27,178	3,890	47,000	13,200	60,200
Professional fees	25,340	3,620	43,500	9,500	53,000
Training	1,337	191	2,300	27,200	29,500
Hospitality	3,547	510	6,120	(1,120)	5,000
Hosting of Events	3,998	580	7,000	(2,000)	5,000
Incidental expenses	223	32	400	(100)	500
<b>Total</b>	<b>146,666</b>	<b>20,984</b>	<b>252,028</b>	<b>61,480</b>	<b>313,508</b>